

Message Text

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PAGE 01 STATE 014733

62

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TO USMISSION NATO

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TAGS: MCAP NATO

SUBJ: NATO INFRASTRUCTURE - INTERNATIONAL COMPETITIVE
BIDDING AND EXCHANGE RATES

REF: STATE 250900, DEC 27, 1973

AFTER FURTHER REVIEW BY TREASURY OFFICIALS, WE HAVE COME
TO CONCLUSION THAT YOU SHOULD PROPOSE THE FOLLOWING
IN PLACE OF FOOTNOTE RECOMMENDED IN PARA. 13 OF
AC/4-D/2285:

"(1) PRICE QUOTATIONS MAY BE EXPRESSED IN THE
CURRENCY OF ANY NATO COUNTRY. THIS SHOULD RESULT
IN LOWER BIDS THAN OTHERWISE POSSIBLE SINCE IT
WILL MINIMIZE OR OBVIATE THE NEED FOR BIDDERS TO
INCLUDE A FACTOR IN BIDS TO HEDGE AGAINST EXCHANGE
RATE LOSSES. THE EVALUATION OF BIDS AND THE EX-
CHANGE RATE TO BE APPLIED WILL BE THAT APPLICABLE
ON THE DATE OF THE OPENING OF THE PRICE EVELOPES.

UNCLASSIFIED

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PAGE 02 STATE 014733

THE APPLICABLE EXCHANGE RATES FOR COMPARISON SHALL

BE THE MIDPOINT BETWEEN THE BUYING AND SELLING RATES OF THE CURRENCIES IN QUESTION IN TERMS OF THE U.S. DOLLAR, IN THE PRINCIPAL FINANCIAL CENTER OF THE COUNTRIES CONCERNED AT THE OFFICIAL FIXING, IF SUCH EXISTS AND OTHERWISE AT NOON ON THE DAY OF DETERMINATION AS ASCERTAINED BY THE CENTRAL BANK OF THE COUNTRY AND PROVIDED TO THE NATO AUTHORITIES. IF THE RATE CANNOT BE ASCERTAINED FOR THE APPROPRIATE DATE, THE RATE SHALL BE THAT ASCERTAINED FOR THE PREVIOUS BUSINESS DAY. IF A MULTIPLE EXCHANGE RATE SYSTEM EXISTS FOR ANY OF THE CURRENCIES BEING EVALUATED, THE RATE USED WILL BE THAT APPLICABLE TO THE COMPARABLE TRANSACTION."

THE REASONS FOR THE PROPOSED CHANGES ARE: (A) THE USE OF THE BANK NOTE RATE FOR COMPARISON PURPOSES IS NOT LOGICAL AND (B) THE USE OF THE AVERAGING METHOD PROPOSED IS MORE COMPLICATED BUT NOT MORE ACCURATE THAN THE TREASURY PROPOSAL.

THE BANK RATE GENERALLY IS USED ONLY IN SMALL TRANSACTIONS SUCH AS TOURIST BUYING OR SELLING ACTUAL BILLS. IT IS DOUBTED THAT EITHER NATO OR CONTRACTORS DEAL IN THIS MANNER ON INFRASTRUCTURE CONTRACTS.

THERE ALSO IS THE MATTER OF DUAL EXCHANGE RATES. BELGIUM, FOR EXAMPLE, HAS A FREE MARKET RATE AND AN OFFICIAL RATE. THE FREE MARKET RATE, WHICH IS UTILIZED FOR CAPITAL TRANSACTIONS, ALSO WOULD NOT BE A LOGICAL RATE. THE OFFICIAL RATE, WHICH IS THE ONE USED FOR COMMERCIAL TRANSACTIONS, IS IN OUR OPINION THE PROPER RATE TO BE UTILIZED. IT IS THE ONE WHICH BUSINESS GENERALLY WOULD USE.

ON THE ASSUMPTION THAT NATO AND CONTRACTORS GENERALLY TRANSACT BUSINESS AT THE OFFICIAL (COMMERCIAL) RATE, IT WOULD BE THE PROPER RATE TO BE UTILIZED. ALSO, THE OFFICIAL RATE AS ASCERTAINED BY THE CENTRAL BANK SHOULD BE USED RATHER THAN SOME FREE MARKET (OR OTHER) RATE

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 014733

USED BY A BANK IN THE CITY WHERE THE BID EVALUATION TAKES PLACE. THIS WILL HELP REMOVE PROVINCIAL BIAS.

AS FAR AS UTILIZING THE AVERAGE OF AVERAGES METHOD TO DETERMINE THE RATE TO BE USED IN THE CALCULATIONS, IN OUR OPINION THOSE EXTRA STEPS ARE UNNECESSARY WITH USE OFF THE OFFICIAL RATE AS MENTIONED. KISSINGER

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